

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Bay Metropolitan Transportation Authority	County Bay County
Fiscal Year End September 30, 2007	Opinion Date January 4, 2008	Date Audit Report Submitted to State January 17, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

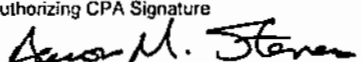
YES NO

Check each applicable box below. (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☒ ☐ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	N/A	
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	Zip 48823
		License Number 1101024055	

**Bay Metropolitan Transportation Authority
Bay City, Michigan**

FINANCIAL STATEMENTS

September 30, 2007

Bay Metropolitan Transportation Authority

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bay Metropolitan Transportation Authority
Bay City, Michigan

We have audited the accompanying financial statements of the Bay Metropolitan Transportation Authority as of and for the year ended September 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bay Metropolitan Transportation Authority as of September 30, 2007, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2008, on our consideration of the Bay Metropolitan Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Bay Metropolitan Transportation Authority's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Bay Metropolitan Transportation Authority. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 4, 2008

Bay Metropolitan Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

As management of the Bay Metropolitan Transportation Authority ["the Authority"] we offer to readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Bay Metropolitan Transportation Authority for the fiscal year ended September 30, 2007.

Financial Highlights

- The net assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$5,535,323. *[page 2]*
- The Authority's total net assets decreased by \$25,106 as the result of current year activities. Of this figure, \$764,515 of the decrease was attributable to the depreciation of capital assets. *[pages 1 and 9]*
- State formula operating assistance declined by 6.4% over 2006 following a decrease in state assistance from 39.250% to 38.621% and a reduction in eligible operating expenses over the previous year.
- Total net eligible operating expenses decreased by \$126,178 [1.8%] over the previous year due largely to service reductions and other cost-saving measures instituted during 2005. Overall expenses declined in spite of higher fuel costs and increased in medical insurance premiums. *[pages 18, 21, and 23]*
- Total expenses [including depreciation of capital assets] decreased by \$248,442 [3.2%] and resulted in a loss of \$6,782,121 before capital contributions, state and federal grants, and local millage receipts are considered. *[page 2]*
- Unrestricted net assets were increased by \$146,773 [8.7%] during the fiscal year. *[page 1]*
- During fiscal year 2007, total revenues [operating and non-operating] exceeded total expenses [less depreciation] by \$789,621. About 70% of the net income was the result of a positive retrospective adjustment by the Michigan Transit Pool for prior years activities.

Overview of the Financial Statements

This Management Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: statement of net assets; statement of revenues, expenses and changes in net assets; statement of cash flows; and notes to the financial statements.

The statement of net assets presents information on all of the Authority's net assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of net assets is shown on page 1 of this report.

The statement of revenues, expenses and changes in net assets presents information on revenues, expenses, capital contributions, and how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus revenues, expenses and capital contributions are reported in the statements of some items that will result in cash flows only in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Authority's current year operations on its financial position. The statement of revenues, expenses and changes in net assets is shown on page 2 of this report.

The statement of cash flows summarizes all of the Authority's cash flows into four categories: cash flows from operating activities; cash flows from non-capital financing activities; cash flows from capital and related financing activities; and cash flows from investing activities. The statement of cash flows is shown on page 3 of this report.

The statement of cash flows, along with related notes and information in other financial statements, can be used to assess the following: the Authority's ability to generate positive future cash flows and pay its debts if and when they occur and/or mature; the reasons for the differences between the Authority's operating cash flows and operating income [loss]; the effect of cash and non-cash investing, capital, and financing activities on the Authority's financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows. The notes to the financial statements are shown on pages 4 to 12 of this report.

The financial statements provide information on all functions of the Authority as business type activities. The activities of the Authority are supported by a property tax levy, fare collections from passengers, and federal and state financial assistance.

Financial Analysis

Statement of Net Assets - Total assets of the Authority exceeded total liabilities by \$5,535,324 as of September 30, 2007. The largest portion of this excess [66.8% or \$3,697,783 of total net assets of \$5,535,324] was invested in capital assets less any related debt that might be outstanding. The Authority used these capital assets to provide public transit services to customers and member jurisdictions; consequently, these assets are not available for future spending. Even though the Authority has no current debt, it should be noted that the Authority's investment in capital assets resources could not be used to liquidate any future liabilities. Such debt, should it occur, would need to be repaid using other sources of revenue such as property tax.

CONDENSED STATEMENT OF NET ASSETS [page 1]

	<u>As of 9/30/06</u>	<u>Change</u>	<u>As of 9/30/07</u>
Current Assets	\$ 2,838,302	\$ -8,103	\$ 2,830,199
Capital Assets [net]	<u>3,852,347</u>	<u>-154,564</u>	<u>3,697,783</u>
Total Assets	6,690,649	-162,667	6,527,982
Current Liabilities	1,147,535	-154,876	992,659
Noncurrent Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	1,147,535	-154,876	992,659
Net Assets			
—Invested in Capital Assets	3,852,347	-154,564	3,697,783
—Unrestricted	<u>1,690,767</u>	<u>+146,773</u>	<u>1,837,540</u>
Total Net Assets	\$ 5,543,114	\$ -7,791	\$ 5,535,323

Unrestricted net assets of \$1,837,540 are available to meet the Authority's ongoing obligations.

Statement of Revenues, Expenses and Changes in Net Assets - During fiscal year 2007, the Authority's activities resulted in an increase in net assets of \$25,106. The increase was largely the result of the inclusion of capital grant revenues. The key elements of the changes in net assets are shown in the following table which summarizes changes in net assets for the fiscal year.

Bay Metropolitan Transportation Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS [pages 2 and 9]

	<u>As of 9/30/06</u>	<u>Change</u>	<u>As of 9/30/07</u>
Operating Revenues	\$ 712,419	\$ -3,490	\$ 708,929
Non-Operating Revenues	<u>6,587,552</u>	<u>219,675</u>	<u>6,807,227</u>
Total Revenues	7,299,971	216,185	7,516,156
Depreciation Expense	882,801	-118,286	764,515
Other Operating Expenses	<u>6,856,691</u>	<u>-130,156</u>	<u>6,726,535</u>
Total Expenses	7,739,492	-248,442	7,491,050
Change in Net Assets	-439,521		25,106
Restated Beginning Net Assets	<u>5,982,635</u>		<u>5,510,217</u>
Ending Net Assets	\$ 5,543,114		\$ 5,535,323

The decrease in operating revenues of \$3,490 [0.5%] was very small. Property tax revenues increased by \$83,960 [4.0%]. The annual rate of increase has generally been in the range of 3.5% since the millage was first approved in 1981. Investment income increased by \$11,739 [19.4%] due to improved interest rates. State of Michigan Act 51 operating assistance decreased by \$94,528 [3.5%] due to decrease in the reimbursement percentage and a reduction in eligible operating expenses. Federal FTA urban/non-urban operating assistance increased by \$37,424. In recent years, a sizable portion of federal urban formula funds have been used for operating purposes. In 2007, a larger portion of FTA Section 5307 funds were used for capital procurements. In addition, the Section 5311 non-urban reimbursement percentage declined from 17% to 15% of eligible expenses.

The following table shows revenues and expenses by source for the fiscal year ended September 30, 2007.

	<u>As of 9/30/06</u>	<u>Change</u>	<u>As of 9/30/07</u>
Operating Revenues	\$ 712,419	\$ -3,490	\$ 708,929
Non-Operating Revenues			
--Property Taxes	2,052,862	83,960	2,136,822
--State Funds	2,750,225	-22,225	2,575,061
--Federal Funds	1,723,838	146,201	1,870,039
Interest Earnings	<u>60,627</u>	<u>11,739</u>	<u>72,366</u>
Total Revenues	7,299,971	216,185	7,516,156
Operations Expenses	5,109,012	-297,279	4,811,733
Maintenance Expenses	1,423,209	28,347	1,451,556
General Administrative Exp	<u>1,207,271</u>	<u>20,490</u>	<u>1,227,761</u>
Total Expenses	\$ 7,739,492	\$ -248,442	\$ 7,491,050

NOTE: In 2006, the \$7,739,492 in expenses includes \$882,801 in depreciation [net expense = \$6,856,691]. In 2007, the \$7,491,050 in expenses includes \$764,515 in depreciation [net expense = \$6,726,535].

Capital Assets and Debt Administration

Capital Assets - The Authority's investment in capital assets as of September 30, 2007, was \$3,697,783 compared to \$3,852,347 in 2006. Investment in capital assets includes: land; buildings and improvements; revenue and non-revenue vehicles; equipment; furniture, fixtures and leasehold improvements. The net decrease in investment in capital assets during the current year was \$154,564 [4.0%]. The most significant event that affected the Authority's capital assets during fiscal year 2007 was the annual depreciation of revenue vehicles.

Bay Metropolitan Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

The following table summarizes capital assets net of depreciation as of September 30, 2007.

	<u>As of 9/30/06</u>	<u>Change</u>	<u>As of 9/30/07</u>
Land [not depreciated]	\$ 165,894	\$ -	\$ 165,894
Buildings and Improvements	1,664,639	-213,903	1,450,736
Revenue/Service Vehicles	1,845,534	53,105	1,898,639
Furniture and Fixtures	2,109	-1,120	989
Maintenance Equipment	145,799	19,336	165,135
Shelters and Signs	4,398	-1,284	3,114
Radio Equipment/Fareboxes	4,976	-1,918	3,058
Data Processing Equipment	18,998	-8,780	10,218
Net Capital Assets	\$ 3,852,347	\$ -154,564	\$ 3,697,783

Additional information on the Authority's capital assets is shown on pages 8 and 9.

Outstanding Debt - At the end of the 2007 fiscal year, the Authority had no outstanding debt. This was unchanged from the 2006 fiscal year.

Other Significant Items

Property tax is the largest local source of revenue for the Authority and accounted for 28.1% of total revenues in 2006. In 2007, the figure was 30.9%. The Authority's property tax revenues have grown steadily at the annual rate of approximately 3.5% since the levy was first approved by the voters of Bay County in 1981 even though some other non-operating revenues, like State of Michigan formula operating assistance, have declined. The property tax was renewed by the voters for an additional five [5] years in November 2004. The 0.75 mill tax levy will remain in effect through 2010. The current levy is set at 0.7476 mills.

The difficult economic conditions affecting the State of Michigan continue to affect the operations of the Authority. In 2007, the state formula reimbursement rate decreased from 39.250% to 38.621%. The 38% reimbursement rate is more than 15% lower than the average formula reimbursement rate of the late 1990's. In 2008, the rate is projected to decrease even more. The 2007 federal non-urban operating assistance percentage was set at 17% of eligible operating expenses, although this percentage is expected to go down to 16% in 2008. The federal urban assistance level for 2008 is unknown at this time. If federal operating/capital funds [FTA Section 5307] increase a bit under the "small urban transit intensive communities" provision, it may help to reduce the impact of State assistance reductions on the Authority's finances.

In order to address the loss of state formula operating assistance during fiscal year 2005, the Authority took steps to bring anticipated losses in the coming fiscal years under control. These efforts were successful in turning a net loss in fiscal year 2005 into net gains in both fiscal years 2006 and 2007. These efforts had positive financial impacts in both 2006 and 2007 without seriously impacting the system's passengers. In both years, ridership increases were recorded even though less service was operated.

The continuing weakness of the State of Michigan is of concern especially since some public transit systems continue to expand services during a time of diminishing State revenues. This growth has the effect of driving down the reimbursement percentage for all systems. Discussions are currently underway at the state level to see if a more equitable distribution formula can be developed. Such a change would not necessarily add state funds to the formula for distribution but it would minimize the effect of growth by other systems, especially large systems, on the rest of the state.

Bay Metropolitan Transportation Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

Two expense categories will continue to be of concern locally. First is the spiraling cost of group health insurance coverage provided by the Authority to full-time employees. After about 10 consecutive years of double-digit increases in premium costs, health insurance is now one of the largest components of the transit agency's operating expenses. Even a "modest" 10% premium increase results in added costs exceeding \$100,000 a year. Second is the high cost of fuel. The Authority is currently spending 50% to 60% more per year for diesel fuel than was spent just a few years ago; this in spite of the fact that smaller, more fuel efficient vehicles are being operated.

During the coming year labor negotiations with the transit system's largest union will take place. The results of that activity will have an important impact on the Authority's expenses for the next three years and will, undoubtedly, affect the level of service that the transit system can afford to provide to the community.

Requests for Information

This financial report is designed to provide our member jurisdictions, customers, investors and creditors with a general overview of the Authority's finances. Questions concerning any of the information provided in this report, as well as additional financial information, may be obtained by contacting the Chief Financial Officer at the following address:

Finance Manager
Bay Metro Transit
1510 N. Johnson Street
Bay City MI 48708
Phone: 989-894-2900, ext 206

BASIC FINANCIAL STATEMENTS

Bay Metropolitan Transportation Authority

STATEMENT OF NET ASSETS

September 30, 2007

ASSETS

Current assets

Cash and cash equivalents	\$ 1,816,637
Investments	100,000
Cash on deposit with agent	150,000
Accounts receivable	209,084
Grants receivable	204,235
Inventories	306,613
Prepays	<u>43,630</u>

Total current assets 2,830,199

Noncurrent assets

Capital assets not being depreciated	165,894
Capital assets, net of accumulated depreciation	<u>3,531,889</u>

Total noncurrent assets 3,697,783

TOTAL ASSETS 6,527,982

LIABILITIES

Current liabilities

Accounts payable	120,778
Accrued wages	179,664
Other accrued liabilities	86,777
Workers' compensation liability	140,648
Deferred revenue	960
Due to Arenac Opportunities, Inc.	104,991
Compensated absences	<u>358,841</u>

TOTAL LIABILITIES 992,659

NET ASSETS

Invested in capital assets	3,697,783
Unrestricted	<u>1,837,540</u>

TOTAL NET ASSETS \$ 5,535,323

See accompanying notes to financial statements.

Bay Metropolitan Transportation Authority

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2007

OPERATING REVENUES	
Sales and charges for services	\$ 708,929
OPERATING EXPENSES	
Operations	4,811,733
Maintenance	1,451,556
General administrative	<u>1,227,761</u>
TOTAL OPERATING EXPENSES	<u>7,491,050</u>
OPERATING (LOSS)	(6,782,121)
NONOPERATING REVENUES	
Taxes	2,136,822
Intergovernmental	
Federal sources	1,414,031
State sources	2,575,061
Interest earnings	<u>72,366</u>
TOTAL NONOPERATING REVENUES	<u>6,198,280</u>
NET LOSS BEFORE CAPITAL GRANT REVENUE	(583,841)
CAPITAL GRANT REVENUE	
Federal sources	456,008
State sources	<u>152,939</u>
TOTAL CAPITAL GRANT REVENUE	<u>608,947</u>
CHANGE IN NET ASSETS	25,106
Restated net assets, beginning of year	<u>5,510,217</u>
Net assets, end of year	<u>\$ 5,535,323</u>

See accompanying notes to financial statements.

Bay Metropolitan Transportation Authority

STATEMENT OF CASH FLOWS

Year Ended September 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from customers	\$ 561,101
Cash paid to employees and vendors	(4,230,597)
Cash paid for employee benefits	<u>(2,724,249)</u>

NET CASH (USED) BY OPERATING ACTIVITIES (6,393,745)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Taxes	2,136,822
Subrecipient grants received	426,601
Amounts paid to subrecipients	(356,929)
Intergovernmental operating grants	<u>4,218,105</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 6,424,599

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital purchases	(609,951)
Capital grants	<u>552,424</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (57,527)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(100,000)
Maturity of investments	100,825
Interest revenue	<u>72,366</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 73,191

NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR 46,518

Cash and cash equivalents, beginning of year 1,770,119

Cash and cash equivalents, end of year \$ 1,816,637

Reconciliation of operating (loss) to net cash (used) by operating activities

Operating (loss)	\$ (6,782,121)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities	
Depreciation	764,515
(Increase) in accounts receivable	(147,828)
(Increase) in inventories	(9,279)
Decrease in prepaids	5,517
(Decrease) in accounts payable	(169,673)
(Decrease) in accrued wages	(858)
Increase in other accrued liabilities	17,554
(Decrease) in workers' compensation liability	(81,000)
Increase in compensated absences	<u>9,428</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (6,393,745)

See accompanying notes to financial statements.

Bay Metropolitan Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bay Metropolitan Transportation Authority was established under the applicable laws of the State of Michigan Public Act 196, as amended, to operate a transportation system within the County of Bay on November 3, 1986. Public Act 196 known as the "Public Transportation Authority Act" authorizes the formation of public transportation authorities with certain powers and duties as separate and distinct political subdivisions within the State of Michigan.

The Bay Metropolitan Transportation Authority receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The Bay Metropolitan Transportation Authority provides linehaul and demand response services within Bay County. The Bay Metropolitan Transportation Authority provides services on a contractual basis to several nonprofit and governmental agencies within the County as well as other services not provided through private providers.

The accounting policies of the Bay Metropolitan Transportation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Authority has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Bay Metropolitan Transportation Authority. The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, as amended by GASB Statement No. 39, and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

2. Basis of Presentation

The accounts of the Bay Metropolitan Transportation Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Bay Metropolitan Transportation Authority resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash, Cash Equivalents, and Investments

The Bay Metropolitan Transportation Authority cash accounts consist of various checking and savings accounts. The balances in the cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing accounts.

Investment accounts include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

6. Cash on Deposit with Agent

The Authority has cash on deposit with the Michigan Transit Insurance Pool of which it is a member. The cash is being held in a premium stabilization fund on behalf of the Authority and is available, without restriction, to the Authority.

7. Inventories

Inventories consist of fuel and maintenance and repair parts and are valued on the average cost basis.

8. Capital Assets and Depreciation

Capital assets, which include land, buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	5 - 30 years
Revenue equipment	2 - 12 years
Fare boxes	10 years
Service vehicles	2 - 12 years
Radio equipment	10 years
Furniture and fixtures	6 - 10 years
Maintenance equipment	5 - 10 years
Shelter and signs	3 - 4 years
Data processing equipment	4 - 10 years

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as defined in the R&E Manual and/or as approved by BPT.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

8. Capital Assets and Depreciation - continued

The eligible depreciation of \$17,369 (\$764,515 total depreciation reported in PTMS code 51300 for both Urban and Nonurban less ineligible depreciation of \$747,146 reported in PTMS code 55007 Ineligible Depreciation) includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by BPT.

9. Compensated Absences

Bay Metropolitan Transportation Authority employees are granted paid leave time in varying amounts. In the event of termination, an employee is paid for certain portions of unused paid leave time. This amount has been recorded in the Statement of Net Assets.

10. Cost Allocations

The Bay Metropolitan Transportation Authority has seven (7) cost allocation plans where the methodology has been approved by the BPT. Those cost allocations are for the separation of grant costs, charter service, special project costs, urban and nonurban service, regional transportation service, administrative costs, and project zero costs. These cost allocation plans were adhered to in the preparation of the financial statements.

The Bay Metropolitan Transportation Authority allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency (i.e., service hours, service miles, peak vehicle).

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

12. Explanation of Ineligible Expenses per the BPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Bay Metropolitan Transportation Authority is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

Bay Metropolitan Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental agency's are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cash, cash equivalents, and investments reported on the Statement of Net Assets consist of the following:

Imprest cash	\$ 400
Checking and savings accounts	1,816,237
Certificates of deposit	<u>100,000</u>
Total	<u>\$ 1,916,637</u>

Deposits

Deposits are maintained at four (4) financial institutions and are carried at cost, as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Imprest cash	\$ 400	\$ -
Insured (FDIC)	381,060	381,060
Uninsured	<u>1,535,177</u>	<u>1,613,982</u>
Total deposits	<u>\$ 1,916,637</u>	<u>\$ 1,995,042</u>

Interest rate risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than 60 percent of the total investment portfolio shall be invested in a single security type or with a single financial institution.

Bay Metropolitan Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments caption on the Statement of Net Assets, based upon criteria disclosed in Note A. The following summarizes the categorization of the amounts as of September 30, 2007:

Cash and cash equivalents	\$ 1,816,637
Investments	<u>100,000</u>
Total	<u>\$ 1,916,637</u>

NOTE C: GRANTS RECEIVABLE

Grants receivable at September 30, 2007, by grant type and year are as follows:

State Operating Assistance - FY07	\$ 12,585
State Operating Assistance - FY06	127,195
State Capital Assistance - Section 5307	16,523
Federal Section 5311 - FY06	4,230
Federal Section 5311 - FY07	17,832
Federal Section 5303 - FY07	<u>5,028</u>
Total	<u>\$ 183,393</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Balance Oct. 1, 2006	Additions	Deletions	Balance Sept. 30, 2007
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 165,894	\$ -	\$ -	\$ 165,894
Capital assets being depreciated				
Building	5,101,277	40,313	-	5,141,590
Revenue equipment	9,480,223	516,465	(417,080)	9,579,608
Fareboxes	13,101	-	-	13,101
Service vehicles	222,804	-	-	222,804
Radio equipment	187,758	-	-	187,758
Furniture and fixtures	11,113	-	(3,752)	7,361
Maintenance equipment	284,075	53,173	(49,101)	288,147
Shelter and signs	45,617	-	-	45,617
Data processing equipment	<u>163,984</u>	<u>-</u>	<u>-</u>	<u>163,984</u>
Subtotal at historical cost	15,509,952	609,951	(469,933)	15,649,970
Less accumulated depreciation for:				
Building	(3,436,638)	(254,216)	-	(3,690,854)
Revenue equipment	(7,643,366)	(454,683)	417,080	(7,680,969)
Fareboxes	(13,100)	-	-	(13,100)
Service vehicles	(214,127)	(8,677)	-	(222,804)
Radio equipment	(182,783)	(1,918)	-	(184,701)

Bay Metropolitan Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE D: CAPITAL ASSETS - CONTINUED

	Balance Oct. 1, 2006	Additions	Deletions	Balance Sept. 30, 2007
Business-type activities - continued:				
Less accumulated depreciation for:				
Furniture and fixtures	\$(9,004)	\$(1,120)	\$ 3,752	\$(6,372)
Maintenance equipment	(138,276)	(33,837)	49,101	(123,012)
Shelter and signs	(41,219)	(1,284)	-	(42,503)
Data processing equipment	(144,986)	(8,780)	-	(153,766)
Subtotal at historical cost	(11,823,499)	(764,515)	469,933	(12,118,081)
Net capital assets being depreciated	3,686,453	(154,564)	-0-	3,531,889
Capital assets, net	\$ 3,852,347	\$(154,564)	\$ -0-	\$ 3,697,783

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year the Bay Metropolitan Transportation Authority disposed of assets that were Federally and State funded with a historical cost of \$469,933. The total amount disposed of was fully depreciated. Depreciation expense in the amount of \$764,516 was reported for year ended September 30, 2007.

NOTE E: RETIREMENT PLAN

Plan Description

The Bay Metropolitan Transportation Authority participates in the Municipal Employees Retirement System of Michigan, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Bay Metropolitan Transportation Authority. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees currently are not required to make contributions to the retirement system. The Bay Metropolitan Transportation Authority is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For year ended September 30, 2007, the Bay Metropolitan Transportation Authority's annual pension cost of \$426,546 for the plan was equal to the Bay Metropolitan Transportation Authority's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal actuarial cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation and (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty-two (32) years.

Bay Metropolitan Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE E: RETIREMENT PLAN - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 2,896,763	\$ 3,445,227	\$ 3,996,705
Actuarial accrued liability (AAL) (entry age)	6,144,256	6,857,822	7,572,421
Unfunded (overfunded) AAL	3,247,493	3,412,595	3,575,716
Funded ratio	47 %	50 %	53 %
Covered payroll	3,257,231	2,975,782	3,239,188
UAAL as a percentage of covered payroll	100 %	115 %	110 %

	Year Ended September 30,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 438,138	\$ 424,019	\$ 426,546
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

NOTE F: COMPENSATED ABSENCES

Paid leave time is accrued at the rate of 19, 24, 29 and 30 days for one, two, five and ten years of service, respectively, for United Steel Workers of America union employees. Unused paid leave shall be paid off on the first pay period after the employee's anniversary date. Employees may carryover a maximum of 120 hours. Vacation, sick, and personal days are no longer separately determined for this class of employees.

Support personnel accrue paid leave days as follows:

Less than one year service	7 days
After one year of service	8 days
Two years of service	9 days
Three and over years of service	10 days

Management employees accrue paid leave days as follows:

Less than one year service	8 days
One to three years of service	21 days
Three to five years of service	26 days
Five and over years of service	31 days

Management employees may carry over a maximum of 40 hours, except for the General Manager, who may carry over 80 hours. Unused hours are paid out to the employee.

Teamsters union employees accrue paid leave days as follows:

After completion of probation	5 days
After one year of service	17 days
After two years of service	22 days
After five years of service	27 days

Part-time employees are eligible for 50 percent of the accrual. Each year, based on the anniversary date of employment, employees may cash in unused leave time or carry over up to forty (40) hours.

Bay Metropolitan Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE F: COMPENSATED ABSENCES - CONTINUED

Sick leave is no longer accrued. Staff employees with five or more years seniority may receive cash for 50 percent of sick leave accrued prior to October 1, 1994, upon termination of employment, not to exceed \$1,000.

Accumulated compensated absences represent a liability to the Authority, which is presented as a current liability. A current liability of \$358,841 is reported in the Statement of Net Assets at September 30, 2007.

NOTE G: PROPERTY TAX REVENUES

The Bay Metropolitan Transportation Authority property tax is levied in December on the Taxable Value of property located in the County of Bay as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$2.88 billion representing 50% of estimated current market value. In November 2004, the Bay Metropolitan Transportation Authority's tax rate of .75 mills was renewed for five (5) years, expiring in December 2010. For the year ended September 30, 2007, the Bay Metropolitan Transportation Authority levied .7476 mills.

NOTE H: RISK MANAGEMENT

The Bay Metropolitan Transportation Authority is a member of the Michigan Transit Liability Trust Fund ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Bay Metropolitan Transportation Authority.

The Bay Metropolitan Transportation Authority pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums. Annually, the Authority receives notification from the Pool of retrospective claims adjustments based on the actual claims experience of the Authority and other members of the Pool. These retrospective claims adjustments, determined by the Pool, are accrued annually by the Authority upon notification.

The Bay Metropolitan Transportation Authority continues to carry commercial insurance for employee health and other insurance including general liability and commercial building insurance.

NOTE I: SELF INSURANCE

The Authority is self-insured for employee's workers' compensation insurance. The self-insurance program is administered by an independent administrator who processes daily claims and performs management duties. Currently, the Authority insures claims of up to \$300,000 for an individual employee. In addition, the Authority has purchased insurance coverage to pay claims exceeding the self-insured portion. To date, the Authority has not incurred any claims exceeding the plan limit.

The claim liability at September 30, 2007, is based on the requirements of Governmental Accounting Standards Board, Statement No. 10, which requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claim liability is estimated by the independent administrator.

Bay Metropolitan Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE I: SELF INSURANCE - CONTINUED

The changes in the claim liability for the years ended September 30, 2007, September 30, 2006, and September 30, 2005, are as follows:

	Beginning of Year/Period Liability	Current Year/Period Claims and Changes in Estimates	Claim Payments	End of Year/Period Liability
2007	\$ 221,648	\$ 173,612	\$(254,612)	\$ 140,648
2006	143,009	193,218	(114,579)	221,648
2005	204,158	127,239	(188,388)	143,009

NOTE J: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

There is other legal action pending against the Authority. Due to the inconclusive nature of the action, it is not possible for Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. This potential liability, if any, is considered by Authority Management and legal counsel to be immaterial or the potential liability would be covered by insurance.

NOTE K: POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the Authority provides certain health care benefits for retired employees. Substantially all of the Authority's employees may become eligible for these benefits if they reach the normal retirement age of 60 with at least 6 years of credited service while working for the Authority. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expense as insurance premiums are paid. For the year ended September 30, 2007, those costs totaled \$60,641.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has issued Statement Number 45, *Accounting and Reporting By Employers for Post-employment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2009.

NOTE L: RESTATEMENT OF NET ASSETS

The Transportation Authority has received reconciliation amounts for state operating assistance for the years ended September 30, 2003, 2004, and 2006 and special service less than the amounts initially recorded as grants receivable. As a result, beginning net assets has been restated as follows:

Net assets as of September 30, 2006	\$ 5,543,114
Overstated receivables	(32,897)
Restated net assets as of September 30, 2006	<u>\$ 5,510,217</u>

OTHER SUPPLEMENTARY INFORMATION

Bay Metropolitan Transportation Authority

LOCAL REVENUES

Year Ended September 30, 2007

Farebox (Urban)	\$ 115,987
Farebox (Nonurban)	45,969
Contract fares	507,510
Administrative services	2,260
Sale of maintenance services	18,252
Central Bus Station rental	10,341
Gain on sale of capital assets	6,770
Tax levy	2,136,822
Interest income	72,366
Other	<u>1,840</u>
TOTAL LOCAL REVENUES	<u>\$ 2,918,117</u>

Bay Metropolitan Transportation Authority

EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2007

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Direct Assistance								
Federal Transit - Formula Grants ^(b)	20.507							
Operating Assistance - Section 5307		MI-90-4535	\$ 899,896	\$ 899,896	\$ 899,896	\$ -	\$ -	\$ -0-
Capital Assistance - Section 5307		MI-90-0499	148,000	70,342	70,342	-	65,906	11,752
Federal Transit - Capital Investment Grants ^(b)	20.500							
Capital Assistance - Section 5309		MI-04-0002	396,000	385,666	385,666	-	-	10,334
Passed through Bay County								
Federal Transit - Metropolitan Planning Grants	20.505							
Planning Assistance - Section 5303 06-07		N/A	31,681	31,681	31,681	-	-	-0-
Passed Through Michigan Department of Transportation								
Federal Transit - Capital Investment Grants ^(b)	20.500							
Capital Assistance - Section 5309 (80/20)		2002-0014/Z33	371,280	-0-	-	-	-	371,280
Formula Grants for Other than Urbanized Areas ^(a)	20.509							
Operating Assistance - Section 5311 (FY 07)		2007-0171/Z3/R1	536,407	482,454	482,454	-	-	53,953
Operating Assistance - Section 5311 (FY 07)								
Arenac Opportunities, Inc.		2007-0171/Z2/R1	82,727	88,266	88,266	-	-	-0-
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51	N/A							
Operating Assistance (FY 07)								
Urban		N/A	1,512,901	1,479,016	-	1,479,016	-	33,885
Nonurban		N/A	1,121,156	1,096,045	-	1,096,045	-	25,111
Operating Assistance (FY 05)		N/A	2,714,269	-0-	-	-	2,613,252	101,017
Operating Assistance (FY 07)								
Arenac Opportunities, Inc.		N/A	187,940	200,523	-	200,523	-	-0-
Operating Assistance (FY 05)								
Arenac Opportunities, Inc.		N/A	181,575	-0-	-	-	174,818	6,757
Operating Assistance (FY 04)								
Arenac Opportunities, Inc.		N/A	194,612	-0-	-	-	192,057	2,555
Capital Assistance - Section 5307 Match	N/A	2002-0014/Z35	25,000	16,523	-	16,523	8,477	-0-
Capital Assistance - Section 5309 Match	N/A	2002-0014/Z34	99,000	96,416	-	96,416	-	2,584

Bay Metropolitan Transportation Authority

EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

Year Ended September 30, 2007

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Award Amount Remaining
				Total	Federal	State		
MICHIGAN DEPARTMENT OF TRANSPORTATION - CONTINUED								
Specialized Services	N/A							
Specialized Services 06-07		2007-0171/Z1	\$ 138,434	\$ 138,434	\$ -	\$ 138,434	\$ -	\$ -
Specialized Services 05-06		2002-0014/Z29	121,553	-0-	-	-	120,216	1,337
Intercity Terminal	N/A	2002-0014/Z32	40,000	40,000	-	40,000	-	-0-
TOTALS			\$ 8,802,431	\$5,025,262	\$1,958,305	\$3,066,957	\$3,174,726	\$ 620,565

(a) Denotes major program.

(b) Denotes programs required to be clustered by the United States Department of Transportation.

(c) The total Federal and State revenue on the Statement of Revenues, Expenses, and Changes in Fund Net Asset is \$1,870,039 and \$2,728,000, respectively. The total Federal and State Revenue on the Expenditures of Federal and State Awards is \$1,958,305 and \$3,066,957, respectively. The difference between the Federal revenue amounts is \$88,266, due to Operating Assistance - Section 5311 passed through to Arenac Opportunities, Inc. The difference between the State revenue amounts is \$338,957, due to \$200,523 Operating Assistance passed through to Arenac Opportunities, Inc. and \$138,434 Specialized Services passed through to service providers.

Bay Metropolitan Transportation Authority

OPERATING AND CONTRACT EXPENSES

Year Ended September 30, 2007

	Urban	Nonurban	Section 5303	Total
Labor	\$ 1,585,197	\$ 1,140,680	\$ 25,163	\$ 2,751,040
Fringe benefits	1,560,378	1,093,834	16,019	2,670,231
Services	70,575	51,107	-	121,682
Materials and supplies	418,511	416,418	-	834,929
Utilities	64,828	46,945	-	111,773
Insurance	(4,609)	(4,615)	-	(9,224)
Purchased service	79,622	57,658	-	137,280
Taxes and fees	5,670	4,105	-	9,775
Miscellaneous expenses	44,806	32,443	-	77,249
Operating leases	12,644	9,156	-	21,800
Depreciation	453,543	310,972	-	764,515
TOTAL EXPENSES	\$ 4,291,165	\$ 3,158,703	\$ 41,182	\$ 7,491,050

Bay Metropolitan Transportation Authority

OAR SCHEDULE 4R
URBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2007

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 115,987
40200	Contract fares	312,621
406	Auxiliary trans revenue	
40699	Administrative services	1,330
407	Nontransportation revenue	
40710	Sale of maintenance services	9,125
40760	Gain on sale of capital assets	3,947
40799	Central Bus Station rental and other	6,112
408	Local revenue	
40800	Tax levy	1,260,622
411	State formula and contracts	
41101	State operating assistance	1,479,016
413	Federal contracts	
41302	Federal section 5307	899,896
41399	Federal section 5303	31,681
414	Other revenue	
41400	Interest income	42,500
	TOTAL URBAN SERVICE REVENUE	<u>\$ 4,162,837</u>

Bay Metropolitan Transportation Authority
OAR SCHEDULE 4E
URBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Administrative	Total
	Expenses				
501	Labor				
50101	Operator's salaries and wages	\$ 924,154	\$ -	\$ -	\$ 924,154
50102	Other salaries and wages	187,916	249,589	223,538	661,043
502	Fringe benefits				
50200	Other fringe benefits	1,011,815	149,235	146,497	1,307,547
50201	Pension	163,322	39,083	50,426	252,831
503	Services				
50302	Advertising fees	-	-	3,140	3,140
50305	Audit cost	-	-	7,134	7,134
50399	Other services	21,224	18,278	20,799	60,301
504	Materials and supplies				
50401	Fuel and lubricants	214,717	7,494	-	222,211
50402	Tires and tubes	13,251	167,741	7,714	188,706
50404	Major supplies	-	6,336	1,258	7,594
505	Utilities				
50500	Utilities	-	58,712	6,116	64,828
506	Insurance				
50603	Liability insurance	(13,258)	-	724	(12,534)
50699	Other insurance	15	-	7,910	7,925
507	Taxes and fees				
50700	Taxes	-	-	5,670	5,670
508	Purchased transportation service				
50800	Purchased transportation service	79,622	-	-	79,622
509	Miscellaneous expenses				
50902	Travel, meeting, and training	239	870	464	1,573
50999	Other miscellaneous	1,459	20,347	21,427	43,233
512	Operating leases and rentals				
51200	Leases and rentals	-	345	12,299	12,644
513	Depreciation				
51300	Depreciation	278,140	22,215	153,188	453,543
550	Less ineligible expenses				
55007	Ineligible depreciation	277,313	21,043	145,260	443,616
55008	Ineligible Central Bus Station rental and other	-	6,091	-	6,091
55009	Ineligible percent of association dues	-	-	1,438	1,438
55010	Other ineligible expenses associated with administrative services	-	-	1,311	1,311
560	Less ineligible expenses				
56001	Ineligible expenses associated with sale of maintenance services	-	9,126	-	9,126
Total expenses					4,291,165
Total ineligible expenses					461,582
Total eligible expenses					<u>\$3,829,583</u>

Bay Metropolitan Transportation Authority

OAR SCHEDULE 4N
URBAN REGULAR SERVICE NONFINANCIAL REPORT

Year Ended September 30, 2007

PUBLIC SERVICE

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	682,387	72,380	-	754,767

⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Bay Metropolitan Transportation Authority

OAR SCHEDULE 4R
NONURBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2007

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 45,969
40200	Contract fares	194,889
406	Auxiliary trans revenue	
40699	Administrative services	930
407	Nontransportation revenue	
40710	Sale of maintenance services	9,127
40760	Gain on sale of capital assets	2,823
40799	Central Bus Station rental and other	6,069
408	Local revenue	
40800	Tax levy	876,200
411	State formula and contracts	
41101	State operating assistance	1,096,045
413	Federal contracts	
41301	Federal section 5311	482,454
414	Other revenue	
41400	Interest income	29,866
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 2,744,372</u>

Bay Metropolitan Transportation Authority
OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT
Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Administrative	Total
	Expenses				
501	Labor				
50101	Operator's salaries and wages	\$ 590,853	\$ -	\$ -	\$ 590,853
50102	Other salaries and wages	120,143	249,590	180,094	549,827
502	Fringe benefits				
50200	Other fringe benefits	646,898	149,234	117,684	913,816
50201	Pension	104,419	39,083	36,516	180,018
503	Services				
50302	Advertising fees	-	-	2,274	2,274
50305	Audit cost	-	-	5,166	5,166
50399	Other services	15,369	13,237	15,061	43,667
504	Materials and supplies				
50401	Fuel and lubricants	214,717	7,495	-	222,212
50402	Tires and tubes	13,252	167,741	7,714	188,707
50404	Major supplies	-	4,588	911	5,499
505	Utilities				
50500	Utilities	-	42,515	4,430	46,945
506	Insurance				
50603	Liability insurance	(13,258)	-	723	(12,535)
50699	Other insurance	11	-	7,909	7,920
507	Taxes and fees				
50700	Taxes	-	-	4,105	4,105
508	Purchased transportation service				
50800	Purchased transportation service	57,658	-	-	57,658
509	Miscellaneous expenses				
50902	Travel, meeting, and training	172	630	337	1,139
50999	Other miscellaneous	1,056	14,733	15,515	31,304
512	Operating leases and rentals				
51200	Leases and rentals	-	250	8,906	9,156
513	Depreciation				
51300	Depreciation	177,827	22,215	110,930	310,972
550	Less ineligible expenses				
55007	Ineligible depreciation	177,299	21,043	105,188	303,530
55008	Ineligible Central Bus Station rental and other	-	6,091	-	6,091
55009	Ineligible percent of association dues	-	-	1,041	1,041
55010	Other ineligible expenses associated with administrative services	-	-	949	949
560	Less ineligible expenses				
56001	Ineligible expenses associated with sale of maintenance services	-	9,126	-	9,126
Total expenses					3,158,703
Total ineligible expenses					320,737
Total eligible expenses					<u>\$2,837,966</u>

Bay Metropolitan Transportation Authority

OAR SCHEDULE 4N
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT

Year Ended September 30, 2007

PUBLIC SERVICE

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	726,743	26,647	-	753,390

⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Bay Metropolitan Transportation Authority

OAR SCHEDULE 4E
SECTION 5303 REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>	<u>Administrative</u>
	Expenses	
501	Labor	
50102	Other salaries and wages	\$ 25,163
502	Fringe benefits	
50200	Other fringe benefits	<u>16,019</u>
	Total eligible expenses	<u>\$ 41,182</u>

Bay Metropolitan Transportation Authority
OPERATING ASSISTANCE CALCULATION
Year Ended September 30, 2007

	Urban	Nonurban	Section 5303
Total expenses	\$ 4,291,165	\$ 3,158,703	\$ 41,182
Less ineligible expenses			
Depreciation	443,616	303,530	-
Central Bus Station rental	6,091	6,091	-
Association dues	1,438	1,041	-
Administrative services	1,311	949	-
Sale of maintenance services	9,126	9,126	-
Total ineligible expenses per R&E manual	461,582	320,737	-0-
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	\$ 3,829,583	\$ 2,837,966	\$ 41,182
Eligible expenses for State reimbursement	\$ 3,829,583	\$ 2,837,966	
x Reimbursement percentage	0.386208	0.386208	
State operating assistance	\$ 1,479,016	\$ 1,096,045	
Eligible expenses for Federal reimbursement	\$ 3,829,583	\$ 2,837,966	\$ 41,182
x Reimbursement percentage	0.500000	0.170000	0.800000
(Section 5307 not to exceed \$899,896; Section 5303 not to exceed \$31,681)			
Federal operating assistance	\$ 899,896	\$ 482,454	\$ 31,681

Bay Metropolitan Transportation Authority

SUBRECIPIENT SCHEDULE OF LOCAL REVENUES (UNAUDITED)
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2007

Demand Response - Farebox (Nonurban)	\$ 15,976
Contract fares	239,948
Other local contracts and reimbursements	<u>5,000</u>
TOTAL LOCAL REVENUES	<u>\$ 260,924</u>

Bay Metropolitan Transportation Authority

SUBRECIPIENT SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (UNAUDITED)
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2007

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Passed Through Michigan Department of Transportation Formula Grants for Other than Urbanized Areas Operating Assistance - Section 5311 (FY 07) Arenac Opportunities, Inc.	20.509							
		2007-0171/Z2/R1	\$ 82,727	\$ 88,266	\$ 88,266	\$ -	\$ -	\$ -0-
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51 Operating Assistance (FY 07) Arenac Opportunities, Inc.	N/A							
		N/A	187,940	200,523	-	200,523	-	-0-
Operating Assistance (FY 05) Arenac Opportunities, Inc.		N/A	181,575	-0-	-	-	174,818	6,757
Operating Assistance (FY 04) Arenac Opportunities, Inc.		N/A	194,035	-0-	-	-	194,035	-0-
TOTALS			\$ 646,277	\$ 288,789	\$ 88,266	\$ 200,523	\$ 368,853	\$ 6,757

Bay Metropolitan Transportation Authority

SUBRECIPIENT SCHEDULE OF OPERATING AND CONTRACT EXPENSES (UNAUDITED)
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2007

	<u>Nonurban</u>
Labor	\$ 283,884
Fringe benefits	36,686
Services	66,710
Materials and supplies	81,051
Utilities	11,965
Insurance	31,140
Miscellaneous expenses	7,178
Interest expense	1,834
Operating leases	681
Depreciation	<u>1,881</u>
Total expenses	<u>\$ 523,010</u>

Bay Metropolitan Transportation Authority

OAR SCHEDULE 4R
SUBRECIPIENT NONURBAN REGULAR SERVICE REVENUE REPORT (UNAUDITED)
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2007

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 15,976
40200	Contract fares	239,948
408	Local revenue	
40999	Other local contracts and reimbursements	5,000
411	State formula and contracts	
41101	State operating assistance	200,523
413	Federal contracts	
41301	Federal section 5311	88,266
	TOTAL NONURBAN SERVICE REVENUE	\$ 549,713

Bay Metropolitan Transportation Authority

OAR SCHEDULE 4E
SUBRECIPIENT NONURBAN REGULAR SERVICE EXPENSE REPORT (UNAUDITED)
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Administrative	Total
	Expenses				
501	Labor				
50101	Operator's salaries and wages	\$ 207,892	\$ -	\$ -	\$ 207,892
50102	Other salaries and wages	-	-	39,371	39,371
50103	Dispatcher's salaries and wages	36,621	-	-	36,621
502	Fringe benefits				
50200	Other fringe benefits	31,550	-	5,136	36,686
503	Services				
50302	Advertising fees	-	-	2,869	2,869
50399	Other services	-	61,043	2,798	63,841
504	Materials and supplies				
50401	Fuel and lubricants	71,778	-	-	71,778
50402	Tires and tubes	3,762	-	-	3,762
50499	Other materials and supplies	3,812	-	1,699	5,511
505	Utilities				
50500	Utilities	-	-	11,965	11,965
506	Insurance				
50603	Liability insurance	29,462	-	-	29,462
50699	Other insurance	-	-	1,678	1,678
509	Miscellaneous expenses				
50902	Travel, meeting, and training	1,430	-	795	2,225
50903	Association dues and subscriptions	-	-	3,513	3,513
50999	Other miscellaneous	1,387	-	53	1,440
511	Interest expense				
51101	Interest on long-term debt	-	-	1,834	1,834
512	Operating leases and rentals				
51200	Leases and rentals	-	-	681	681
513	Depreciation				
51300	Depreciation	-	-	1,881	1,881
550	Less ineligible expenses				
55007	Ineligible depreciation	-	-	1,881	1,881
55006	Other ineligible interest expense	-	-	1,834	1,834
55009	Ineligible percent of association dues	-	-	86	86
Total expenses					523,010
Total ineligible expenses					3,801
Total eligible expenses					\$ 519,209

Bay Metropolitan Transportation Authority

OAR SCHEDULE 4N
SUBRECIPIENT NONURBAN REGULAR SERVICE NONFINANCIAL REPORT (UNAUDITED)
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2007

PUBLIC SERVICE

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	368,503	15,752	-	384,255

Bay Metropolitan Transportation Authority

SUBRECIPIENT OPERATING ASSISTANCE CALCULATION (UNAUDITED)
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2007

	<u>Nonurban</u>
Total expenses	\$ 523,010
Less ineligible expenses	
Depreciation	1,881
Other interest expense	1,834
Association dues	<u>86</u>
Total ineligible expenses per R&E manual	<u>3,801</u>
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	<u>\$ 519,209</u>
Eligible expenses for State reimbursement	\$ 519,209
x Reimbursement percentage	<u>0.386208</u>
State operating assistance	<u>\$ 200,523</u>
Eligible expenses for Federal reimbursement	\$ 519,209
x Reimbursement percentage	<u>0.170000</u>
Federal section 5311 operating assistance	<u>\$ 88,266</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Bay Metropolitan Transportation Authority
Bay City, Michigan

We have audited the basic financial statements of the Bay Metropolitan Transportation Authority as of and for the year ended September 30, 2007, and have issued our report thereon dated January 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bay Metropolitan Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and the Board of Directors of the Bay Metropolitan Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 4, 2008

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Bay Metropolitan Transportation Authority
Bay City, Michigan

Compliance

We have audited the compliance of the Bay Metropolitan Transportation Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to each of its major federal programs for the year ended September 30, 2007. The Bay Metropolitan Transportation Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the Bay Metropolitan Transportation Authority's management. Our responsibility is to express an opinion on the Bay Metropolitan Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bay Metropolitan Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Bay Metropolitan Transportation Authority's compliance with those requirements.

In our opinion, the Bay Metropolitan Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

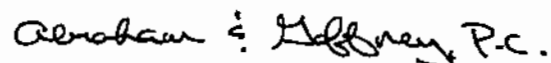
The management of the Bay Metropolitan Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Bay Metropolitan Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the Board of Directors of the Bay Metropolitan Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 4, 2008

Bay Metropolitan Transportation Authority
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.509	Section 5311

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Bay Metropolitan Transportation Authority
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2007

There were no findings disclosed for the past two years.